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## Glimpses of the Political Economy: Limited and Open Access Orders<sup>1</sup>

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All societies must deal with the **possibility of violence**, and they do so in different ways. Based on the evidence of a series of country studies, the approach of North et al. integrates the problem of violence into a larger social science and historical framework, showing how economic and political behaviour are closely linked to manage the problem of latent and open violence.

Most ancient societies, in Europe at least until the middle ages and the renaissance<sup>2</sup>, limit violence by favouring the economic and political power of a small privileged group. Powerful individuals and groups – **dominant coalitions** which are a small percentage of the population – limit the use of violence and provide protection in exchange for rents, social position, prestige and symbolic power signs. But doing so these dominant coalitions hinder unintentionally both economic and political development by limiting the equal access to rights, resources, opportunities and political participation of the majority of the people. Economically they also hamper the unfolding of the economic potentials of the repressed population. Therefore, dominant coalitions tend to give preference to stability and tough - if necessary - violent control of their rents over general development.

Hierarchies of elites are built on **personal relationships** that extend the control of the dominant coalition to the bottom. Personal relationships in natural states, such as the tribes of the American plane Indians, resulted from traditional face-to-face interaction and strong dependencies for survival. In well-developed natural states, elite privileges included control over powerful social organizations such as a church, government, courts, and military units. They control a sub-system of their society, whether in political, economic, or religious organizations. They capture most of the gains of the society and so the rest of the society are generally second class citizens — Bondsmen, slaves, serfs, or just persons with no particular property or political rights.

This way of organization has dominated and still dominates the world: More than eighty percent of the world's population still lives in such societies. Open access societies are a **new and recent development**. It rests upon competition in political and economic markets, and it particularly rests on bringing greater and greater proportions of the population to becoming participating citizens with equal rights. The fundamental difference, of course, is that in the limited access society personal relationships and who you are and whom you know count.

Open Access Orders (OAO) organise themselves around competition and a government monopoly over violence. Since they do not have a secure state monopoly on violence, Limited Access Orders (LAO) organise themselves to control violence among elite factions which divide the country's economy among themselves. Development reforms will fail if they attempt to create OAOs in societies ill-prepared for such fundamental change in their social and political dynamics.

In contrast to LAO, modern societies create open access to economic and political organizations, fostering political and economic competition. Open access orders (OAO), built on the organizational

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<sup>1</sup> Sources: North, D. et al.: Limited Access Orders in the Developing World: A New Approach to the Problems of Development. Policy Research working paper, WPS 4359, World Bank, Washington, D.C. 2007 / Douglass C. North, John Joseph Wallis, Barry R. Weingast: Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History, 2012 / Douglass C. North: Violence and Social Orders. Opening Speech at Beloit College, 2013

<sup>2</sup> The major milestones on the way to a more open society and hallmarks for the region are the English Glorious Revolution of 1688 and the French Revolution of 1789. Thomas Hobbes (Leviathan, 1651) may be seen as the philosophical founder of a state able to control violence, and legitimate government, creating conditions for common wealth. He demonstrated the necessity of a strong central authority to avoid the evil of discord and civil war. To this end, human passions need to be transformed into capacities like respect, trust, economic interest and cooperation.

achievements of the natural state, extend citizenship to an ever-growing proportion of the population. All citizens are able to form economic, political, religious, or social organizations to produce any number of functions. The only proscribed function is the use of violence. Unlike the natural state, which actively manipulates the interests of elites and non-elites to ensure social order, the open access society allows individuals to pursue their own interests through active competition. Individuals continue to be motivated by economic rents in both political and economic markets.

In an open access society, social order is maintained through the interaction of competition, institutions, and beliefs. Control of the military is concentrated in government, and control over the government is subject both to political competition and institutional constraints. Attempts to use government to coerce citizens, either directly through the use of military force or indirectly through manipulation of economic interests, result in the activation of existing organizations or creation of new organizations that mobilize economic and social resources to establish control over the political system. In open access society there are property rights and impersonal exchange; who you are is less important than what you do and what you can do. This impersonal exchange has opened up by competition driving forces that have encouraged enormous expansions in economic growth and prosperity in the modern world. A rich society is a result of an open access society.

OAOs are mostly upper-income, advanced industrial countries that have open competition, multi-party democratic political systems and a secure government monopoly over violence. In general, OAOs allow all citizens to enter into economic, political, religious and educational activities, form organisations and enjoy an impartially-enforced rule of law. OAOs have developed institutional forms and mechanisms that allow the delivery of public goods and services based on relatively objective, impersonal and impartial criteria. All OAOs have sophisticated public and private organisations. The OAO state uses specialised institutions and division of labour.

The question arises, how does a transition from a LAO to an OAO occur? The transition is a problem because limited access societies are societies in which elites run the systems. They are a small proportion of the population - ten, fifteen, twenty percent at the most - but they are getting all the benefits and, obviously, anything that changes or undermines them is something they would not welcome. Open access societies are just the reverse. They are competitive. Competition dominates the way in which both political and economic markets work. The economy works by innovative creation; there is competition in markets, and those players who create more efficient, productive methods stand to gain and replace those who are less efficient. Innovation and creativity are the heart of what makes markets work and what has made the modern world so dynamic and such an extraordinary place.

The LAO is still dominating the world and provides the ground for development approaches of all kind. As stated before in LAO states dominant elite factions divide up control of the economy and politics, each getting some share of the rents.

- LAOs limit the access to land and other resources to dominant groups; health, education and economic opportunities, capital resources, the right to organise and access to justice privilege these groups. LAOs have state-controlled industries, business licensing regimes and patron-client networks. The elites decide whether private organisations and citizen organisations are allowed to exist.
- LAO delivery of services depends on to whom the recipient is connected. LAO bureaucracies have difficulty delivering services according to impersonal criteria, services and rents of the state are given to dominant groups, justifying their privileges through the control over violence and symbolic interactions. As a result, many LAOs have dualistic economies: Restricted

labour and markets for the broad population and the poor, globally connected luxury markets for the dominant elites.

- LAO are based on ascribed (not achieved) positions and built on personal relationships, favours, personal preferences and clientele systems that generate dependencies and loyalty. What might be qualified as corruption in an open access order, is seen as a current practice of gratification and loyalty generation.
- LAO take any institutional form or mechanism (from slavery and feudalism to dictatorships of all kind) and bend it to the purpose of rent-creation to sustain the existing dominant coalition.
- LAO does not necessarily correspond with the concept of the controversial term of fragile or rogue state<sup>3</sup>. From the viewpoint of the dominant fractions, the legitimate owners of the state, the LAO is working perfectly in the well-deserved interests of the elites and the connected violent groups of organized crime.

The **transition from LAO to OAO** implies a fundamental re-distribution of power. It starts slowly with establishing an impersonal rule of law (i.e. a constitution) for elites and citizens based on impersonally-defined requirements. Second, to increase rents, the LAO begins to allow licenses to craft guilds and private entrepreneurs, and even civil organisations are may be allowed to a very limited extent. The delivery of some very basic social services, protecting the most vulnerable people, may also be a signal for transition. Setting up of careful consultation mechanisms that can be easily withdrawn or manipulated, if necessary, may also signal a shift to a more open order. In addition, the more the LAO achieves to centralize the control of violence it shifts towards a more open access order.

The big problem of the transition from LAO to OAO is that the **standard development approaches** aim to introduce elements of property rights, rule of law and democratic governance into developing societies. This rather naïve approach usually fails in LAO, if the behaviour of the dominant coalitions and the potential for violence are not accurately addressed. Democratic rule, transparency in public finance, progressive taxes, increased and transparent market competition, citizen rights, particularly the right to voice and organization, usually weakens the rent-creation system that holds the LAO together. Attempts to remove corruption, broking up personal clientele systems, and setting up democratic elections with competitive parties, in essence, the creation of democratic institutions can destabilise and undermine an LAO. Well intentioned proposed reforms threaten the basis of order and risk generating violence.

- Groups that benefit directly from LAO economic arrangements and public contracts will resist such reforms. Even those exploited will prefer to remain exploited rather than to risk disorder and violence.
- LAOs can adopt institutional forms proposed by an international development agency without fundamentally changing the way they operate. Reforms will be imitated while on backstage the personal clientele system and corruption continue. Doing so often helps to sustain and strengthen the LAO.
- In violence-torn societies development practitioners can at least help hampering violence practice when the dominant elites realize the costs of smoldering and open conflicts. Since outbreaks of violence reduce the rents, the elite factions have incentives to be peaceable most of the time.

In order to understand a political reform process in the perspective of the power shift from LAO to OAO, it is important to unfold a realistic understanding of the way decision-making and elites tick in

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<sup>3</sup> Mainly applied by the US State Department to states they consider threatening to the world's peace. This means meeting certain criteria, such as being ruled by authoritarian regimes that severely restrict human rights, sponsor terrorism, and seek to proliferate weapons of mass destruction.

a LAO. This includes a basic understanding of how the dominant coalitions cut off citizens from political and economic rights and by what means they manage to exercise power, e.g. by using threats, excluding interest groups from public contracts, vote buying, linking up to organized crime, etc. A common feature of LAO is that political elites divide up the control of the economy, each getting some share of the rents. In a lot of cases, in the eyes of the dominant coalitions, adequate stability of the rents and thus of the social order doesn't require a more open society, but a more repressive and controlled social order with a fundamentally different logic than the open access order.

In today's world, reform processes take place somewhere in between the two LAO and OAO extremes – there are blockades and opportunities in nearly each and every setting. The objective of the following table is to reflect and clarify a proposed political reform applying the LAO and OAO logic. It might help to formulate different change opportunities and institutional scenarios of how the reform process will be dealing with power shifts and new institutional settings.

<b>Social Order</b>	<b>Limited Access Orders</b>	<b>Open Access Orders</b>
<b>Features</b>	Dominant coalitions divide up control of the economy, each getting some share of the rents Dominant groups use force and violence, if necessary in coalition with organized crime Limited access to political rights and economic resources Persistence of clientele systems Access to markets and economic licenses Manipulation of markets and monopolies Economic privileges distributed among the elite factions Control of mass media Control over justice and political elections Property rights not guaranteed Public sector controlled by elite groups Large power distance to the population Authoritarian behaviour widespread among elites	Rule of law guaranteed Separation of powers Control of force by the state Respect for human rights and open access to justice Open economic and political competition Access to organization, voice and media Protected mechanisms of political participation Transparent open markets Open and equal access to rights, resources, basic services opportunities Public officials have a vested self-interest to observe legal rules Transparency and accountability of the public sector Progressive tax regime Social protection of vulnerable social groups
<b>Questions about trends and opportunities</b>	What are the most important economic sectors for the reproduction of the dominant coalitions? What are the development concepts of different elite factions? What is the incidence of global enterprise and markets? What are the development trends in public administration? Who are the CSOs with voice? How emerges the demand for transition in civil society?	How is the interaction between state and citizens defined? What are pockets of persisting LAO, e.g. personal relationships over merits, corruption? What are the driving forces for an OAO? How these driving forces can be strengthened? How mechanisms of transparency and accountability can be promoted?